

DRAFT BUDGET OF  
**KAI !GARIB MUNICIPALITY**

2013/14 TO 2015/16  
MEDIUM TERM REVENUE AND  
EXPENDITURE FORECASTS

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## **PART I**

### **1. Mayor's Report**

## 2. Resolutions

### 3. Executive Summary

National Treasury's MFMA Circular No. 66 and 67 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2013/14 MTREF can be summarised as follows:

- The general level of poverty and the communities ability to pay for services;
- Severe infrastructure challenges
- Relative low levels of MIG funding
- Availability of affordable borrowing
- The need to fill critical vacancies
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2013/14 MTREF:

- The 2012/13 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget
- Although tariffs must be affordable, we need to strive towards cost reflective trading services
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

#### Consolidated Overview of the 2013/14 MTREF

<i>R Thousand</i>	<b>Adjustment Budget 2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Total Operating Revenue	151 699	163 578	174 186	191 980
Total Operating Expenditure	143 979	233 436	249 180	267 158
Surplus/Deficit for the year	7 720	-69 858	-74 994	-75 178
Total Capital Expenditure	34 478	27 870	21 991	22 157

Total operating revenue has grown by 7.8% per cent or R11.8million for the 2013/14 financial year when compared to the 2012/13 Adjustment Budget. For the two outer years, operational revenue will increase by 6.5 and 10.2% respectively, equating to a total revenue growth of R40.28million over the MTREF when compared to the 2012/13 financial year.

March 2013

Total operating expenditure for the 2013/14 financial year has been appropriated at R233,43 million and translates into a budgeted deficit of R69,85 million. The large increase in the deficit from the previous year is due to the effect of GRAP17 implementation for assets and GRAP evaluation of outstanding debtors.. These (non-cash) deficits will be with the municipality for the next few years.

The capital budget of R27,87 million for 2013/14 is 23.7% per cent less when compared to the 2012/13 Adjustment Budget. MIG funding to the value of R19.9m will form the bulk of the capital expenditure for the year. The municipality intends to go into the market to the value of R2.1m to fund the upgrade of the existing fleet. Another R5.7m will be funded from internal funds.

#### 4. Annual Budget Tables

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- The annual collection rate for the 2013/14 financial year is set at 85% for property rates and key service charges.;
- Progress towards achieving full cost recovery for trading services;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Council.

The following table is a summary of the 2013/14 MTREF (classified by main revenue source):

##### Summary of revenue classified by main revenue source

<i>R thousand</i>	<b>Adjusted Budget</b>	<b>Full Year Forecast</b>	<b>Budget Year 2013/14</b>	<b>Budget Year +1 2014/15</b>	<b>Budget Year +2 2015/16</b>
Property rates	10 960	16 507	13 687	15 056	16 561
Property rates - penalties & collection charges	2 348	2 611	2 583	2 842	3 126
Service charges - electricity revenue	54 867	50 200	58 813	63 224	67 966
Service charges - water revenue	10 402	10 702	11 075	12 183	13 401
Service charges - sanitation revenue	6 135	6 107	7 007	7 708	8 479
Service charges - refuse revenue	4 219	4 219	5 010	5 511	6 063
Service charges - other	9	7	10	11	12
Rental of facilities and equipment	247	135	265	282	300
Interest earned - external investments	175	135	187	200	213
Interest earned - outstanding debtors	7 276	7 263	8 404	9 203	10 077
Fines	132	124	141	150	160
Licences and permits	453	476	485	516	550
Agency services	2 193	1 849	2 346	2 498	2 661
Transfers recognised - operational	51 824	82 005	53 075	54 281	61 857
Other revenue	457	3	489	521	555
<b>Total Revenue</b>	<b>151 699</b>	<b>182 344</b>	<b>163 578</b>	<b>174 186</b>	<b>191 980</b>

## Percentage growth in revenue by main revenue source

<i>R thousand</i>	Adjusted Budget		Budget Year 2013/14		Budget Year +1 2014/15		Budget Year +2 2015/16
Property rates	10 960	24.88%	13 687	10.00%	15 056	10.00%	16 561
Property rates - penalties & collection charges	2 348	10.01%	2 583	10.03%	2 842	9.99%	3 126
Service charges - electricity revenue	54 867	7.19%	58 813	7.50%	63 224	7.50%	67 966
Service charges - water revenue	10 402	6.47%	11 075	10.00%	12 183	10.00%	13 401
Service charges - sanitation revenue	6 135	14.21%	7 007	10.00%	7 708	10.00%	8 479
Service charges - refuse revenue	4 219	18.75%	5 010	10.00%	5 511	10.02%	6 063
Service charges - other	9	11.11%	10	10.00%	11	9.09%	12
Rental of facilities and equipment	247	7.29%	265	6.42%	282	6.38%	300
Interest earned - external investments	175	6.86%	187	6.95%	200	6.50%	213
Interest earned - outstanding debtors	7 276	15.50%	8 404	9.51%	9 203	9.50%	10 077
Fines	132	6.82%	141	6.38%	150	6.67%	160
Licences and permits	453	7.06%	485	6.39%	516	6.59%	550
Agency services	2 193	6.98%	2 346	6.48%	2 498	6.53%	2 661
Transfers recognised - operational	51 824	2.41%	53 075	2.27%	54 281	13.96%	61 857
Other revenue	457	7.00%	489	6.54%	521	6.53%	555
<b>Total Revenue</b>	<b>151 699</b>		<b>163 578</b>	<b>6.48%</b>	<b>174 186</b>	<b>10.22%</b>	<b>191 980</b>

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms about 58% on average over the MTREF period. The contribution from the equitable share however is also significant at around 32%.

The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Operating grants and transfers totals R53,075 million in the 2013/14 financial year and increases to R56,187million by 2015/16, representing a growth of 5.8%.

### 4.1 Operating Transfers and Grant Receipts

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:



<i>R thousand</i>	<b>Budget Year 2013/14</b>	<b>Budget Year 2013/14</b>	<b>Budget Year 2013/14</b>
Equitable Share	48 286	50 278	51 971
Financial Management Grant	1 650	1 800	1 950
Municipal Improvement Grant	890	934	967
EPWP	1 000		
Municipal Infrastructure Grant	20 570	21 190	22 386
Library Development	630	630	630
<b>TOTAL</b>	<b>73 026</b>	<b>74 832</b>	<b>77 904</b>

## 4.2 Tariffs

### Property Rates

The following stipulations in the Property Rates Policy are highlighted:

- The first R20 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA)
- 100 % rebate will be granted to registered indigents in terms of the Indigent Policy, child headed households and disabled persons
- 

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2013/14 financial year based on a 10% increase from 1 July 2013 is contained below:

### Comparison of proposed rates to levied for the 2013/14 financial year

<b>Category</b>	<b>Current Tariff (1 July 2012)</b>	<b>Proposed tariff (from 1 July 2013)</b>
	<b>c/R</b>	<b>c/R</b>
Residential properties	0.007986	0.008785
State owned properties	0.015972	0.017569
Agricultural	0.001997	0.002196

### Water Tariff Increases

There is currently a huge under-recovery as far as the provision of water services are concerned. Hence the higher than inflation rates are proposed.

A summary of the proposed tariffs are as follows:

### Proposed Water Tariffs

CATEGORY	CURRENT TARIFFS 2012/13	PROPOSED TARIFFS 2013/14
	Rand per kℓ	Rand per kℓ
(i) 0 to 10 kℓ per month	3.30	3.70
(ii) 11 to 20 kℓ per month	2.64	3.01
(iii) 21 to 30 kℓ per month	3.21	3.73
(iv) 31 to 50 kℓ per month	3.27	3.86
(v) over 50 kℓ per month	3.82	4.59

The following table shows the increases in basic charges which is set at 20%:

CATEGORY	CURRENT TARIFFS 2012/13	PROPOSED TARIFFS 2013/14
	Rand	Rand
(i) Domestic(20-25mm connection)	38.65	46.38
(ii) Commercial(50mm connection)	205.91	247.09
(iii) Commercial(75mm connection)	1308.71	1570.45
(iv) Commercial(100mm connection)	3413.45	4096.14
(v) Untreated	169.29	203.15
(vi) Availability(domestic)	38.65	46.38
(vii) Availability(commercial)	38.65	46.38

The Council provides indigents with an amount of 10kl per month.

### Electricity Tariffs

NERSA has announced the revised bulk electricity pricing structure of 8% increase.

We propose a tariff increase to all electricity users of 7.5%.

### Sanitation Tariff

Once again there is a challenge with respect to being cost reflective, hence the Council proposed a tariff increase of 20% . All indigents are excluded from paying for sanitation.

### Waste Removal Tariff

Similarly the tariffs for waste removal has been increased by 20% with the indigents being excluded. This is based on refuse being removed once per week.

### 4.3 Operating Expenditure Framework

The following table is a high level summary of the 2013/14 budget and MTREF (classified per main type of operating expenditure):

#### Summary of operating expenditure by standard classification item

<i>R thousand</i>	Adjusted Budget	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Employee related costs	49 193 648	55 943 467	60 019 187	64 393 039
Remuneration of councillors	4 454 983	4 917 780	5 232 518	5 573 497
Debt impairment	10 067 448	40 918 930	44 806 228	49 062 820
Depreciation & asset impairment	5 006 805	36 183 812	38 535 760	41 040 584
Finance charges	4 422 643	2 899 613	3 056 192	3 221 227
Bulk purchases	29 528 851	32 610 797	35 246 565	38 095 885
Other materials	8 648 044	10 571 670	11 258 830	11 990 656
Contracted services	5 429 756	12 739 766	13 427 715	14 152 811
Transfers and grants	5 492 080	8 862 556	9 340 053	9 843 335
Other expenditure	23 708 704	27 787 582	28 256 931	29 784 150
<b>Total Revenue</b>	<b>145 952 962</b>	<b>233 435 973</b>	<b>249 179 979</b>	<b>267 158 004</b>

#### Employee Costs

The budgeted allocation for employee related costs for the 2013/14 financial year totals R55.94 million, which equates 24% per cent of the total operating expenditure. However if we remove the non-cash items(debt impairment and depreciation) the salary budget equates to 35.8% of the operational budget. Increases were based on the National Treasury guideline of 6.85%(plus an additional 1% for pay progression). A further 6.4% is included for the two outer years of the MTREF respectively.

The cost associated with the remuneration of councilors was set at 6.85 and 6.4% increase respectively for the MTREF period.

#### Bulk Purchases

The next biggest expense for the Council is the payment for bulk purchases which was budgeted for R32.61 million or 14% of the operating budget.

#### Debt Impairment

The implementation of GRAP for the calculation of debt impairment increased the expenditure budget tremendously. Debt impairment alone accounts for 17.5% of the expenditure budget. This contributed to the large deficit on the statement of financial performance.

## Depreciation

Similarly, the implementation of GRAP 17 on the calculation of depreciation increased the expenditure by R36.18million or 15.5%. The effect of these two expenditure items will be felt for a number of years to come.

## Other Expenditure

Other expenditure were budgeted at R27.7million. The majority of the expenses can be attributed to

- (i) Fuel at R3.3 million
- (ii) Audit fees at R2.08m
- (iii) Subsistence and travel at R2.6m and
- (iv) Valuation Fees at R3 million.

## 4.4 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

<i>R thousand</i>	<b>Budget Year 2013/14</b>	<b>Budget Year 2013/14</b>	<b>Budget Year 2013/14</b>
Executive and council	166	60	60
Budget and treasury office	152	20	20
Corporate services	275	70	70
Community and social services		5 123	
Planning and development	605	460	490
Road transport	7 434	2 640	9 850
Electricity	1 534	1 000	
Water	15 297	7 226	
Waste water management	1 166	5 391	11 667
Waste management	1 242		
<b>Total Capital Expenditure</b>	<b>27 871</b>	<b>21 991</b>	<b>22 157</b>

Expenditure on the CAPEX budget is largely driven by projects that has been approved in terms of MIG funding. For 2013/14 an amount of R19.951 million has been appropriated for the development of infrastructure which represents 71.5% of the total CAPEX budget.

The highest priority as per the IDP is the provision of housing. Since the municipality does not provide housing, but merely act as agent, the onus is on the municipality to provide suitable land for the provision of housing.

The provision of water services has been identified as the second highest priority in the IDP. An amount of R12.1 million has been appropriated for the provision of bulk water services.

A shortage of burial sites has been identified in the previous budget, however due to the environmental impact studies that has not been completed and other regulatory requirements that need to be met, the provision of cemeteries has been postponed for another year.

R6.79 million has been appropriated to the roads division for the reparation and improvement of the municipalities internal road infrastructure.

A further R2.1million has been appropriated for the upgrade of the municipalities motor vehicle fleet. This will be financed from commercial institutions.

## PART II

### 1. Overview of the annual budget process

The Mayor tabled in Council the required the IDP and budget time schedule on 25 August 2012. Key dates applicable to the process were:

- **August 2012** – Budget process plan tabled before Council
- **November 2012 to January 2013** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **25 January 2011** - Council considers the 2012/13 Mid-year Review and Adjustments Budget;
- **February/March 2013** - The draft 2013/14 MTREF is compiled;
- **27 March 2013** - Tabling in Council of the draft 2013/14 MTREF for public consultation;
- **April 2013** – Public consultation;
- **10 May 2013** - Closing date for written comments;
- **13 to 28 May 2013** – finalisation of the 2013/16 IDP and 2013/16 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **27 June 2013** - Tabling of the 2013/14 MTREF before Council for consideration and approval.

## **2. Overview of the a alignment of annual budget with Integrated Development Plan**

### **3. Measurable Performance Objectives and Indicators**



## **4. Overview of budget-related policies**

## **5. Overview of budget assumptions**

## **6. Overview of budget funding**

## **7. Expenditure on allocation and grant programmes**

## **8. Allocations and grants made by the municipality**

## **9. Councillor and board member allowances and employee benefits**

## **10. Monthly target for revenue, expenditure and cash flow**

## **11. Annual budgets and service delivery and budget implementation plans – internal departments**



## **12. Contracts having future budgetary implications**

### **13. Capital expenditure details**

## **14. Legislation compliance status**

## **15. Municipal manager's quality certification**